

**BOSTON COLLEGE**  
Department of Economics

EC 365.01 - Spring 1998  
Public Finance

C. Schneider

This is a course in the microeconomics of the public sector. We will discuss the rationale for the government's role in a market economy, major expenditure programs, and the theory and structure of the tax system. Because of time constraints, we will focus primarily on the federal government's tax and expenditure programs.

We will use many of the tools and techniques of microeconomic theory to analyze government programs, so EC 201 (or EC 203) is a prerequisite for the course. Students who wish to take this course concurrently with EC 201 should discuss their course load with me.

You are responsible for all material covered in lectures, the readings assigned below and the news articles in the "EC 365 - Current Events" files. The text, *Public Finance*, 4th ed., by Harvey Rosen, is available in the college bookstore. Most of the additional readings have been compiled by BC Press and are available in the bookstore. A copy of the readings packet, the article(s) not included in the packet, and the "Current Events" files are on reserve at O'Neill.

Because it is important that you be able to communicate information both in writing and orally, course grades will be based on your performance on written exams and class participation. Class participation includes class attendance. The weights for the various components will be: mid-term exams - 25% each, comprehensive final - 30%, and class participation - 20%. The mid-term exams are scheduled for **Thursday, February 12** (following Section IIC) and **Thursday, March 19** (following Section IIIC) **from 7:30 to 9:00 in the evening**. The final is scheduled for **Thursday, May 7, at 9 AM**.

If you are unable to take an exam or to attend class for a prolonged period, please notify me as soon as possible. Make-up exams will be given only for excused absences, and verification of the excuse may be required. Please read the policy on class attendance and make-ups found in *The Boston College Catalog, 1997 - 1998*, pp. 41.

The University policy on grading and the College of Arts and Sciences policy on academic honesty, both printed in the *Catalog*, pp.33 - 34 and 41 - 42, apply..

My office is Carney 144, and the telephone extension is 2-3786. My e-mail address is catherine.schneider@bc.edu. Office hours will be Tuesday, 9:00 - 11:30 AM; Wednesday, 1:00 - 2:00 PM; Thursday, 1:00-2:30 PM; and by appointment.

## SYLLABUS

- I. Introductory Material
  - A. Overview of Public Sector (1/12 - 1/16)
    - Rosen, Chs. 2 & 7 (pp. 141-150)
    - Musgrave, "Reconsidering the Fiscal Role of Government," *The American Economic Review*, May 1997
  - B. Analytical Tools for Public Sector Economics (1/21 - 1/23)
    - Rosen, Ch. 4
    - Blinder, *Hard Heads, Soft Hearts*, Ch. 1
  
- II. Role of the Public Sector
  - A. Public Goods & Public Choice (1/26 - 2/2)
    - Rosen, Chs. 5 (pp. 61-74) & 7 (pp. 119-137)
    - Coase, "The Lighthouse in Economics," *Journal of Law and Economics*, October 1974
    - Kelman, "'Public Choice' and Public Spirit," *The Public Interest*, Spring 1987
  - B. Externalities (2/4 - 2/9)
    - Rosen, Ch. 6
    - Stavins and Whitehead, "Dealing with Pollution," *Environment*, September 1992
    - Ruffin, "Externalities, Markets, and Government Policy," Federal Reserve Bank of Dallas *Economic Review*, Third Quarter, 1996
  - C. Income Distribution (2/11)
    - Rosen, Ch.8 (pp. 152-164)
    - Citro and Michael, eds., *Measuring Poverty: A New Approach*, Summary and Recommendations
  
- III. Public Expenditures - Selected Topics
  - A. Transfer Programs (2/13 - 2/20)
    - Rosen, Ch. 8 (pp. 164-171) & 9
    - Blank, "Policy Watch: The 1996 Welfare Reform," *The Journal of Economic Perspectives*, Spring 1997
  - B. Social Insurance (2/23 - 3/11)
    - Rosen, Chs. 10 & 11
    - Quinn and Mitchell, "Social Security on the Table," *The American Prospect*, May-June 1996
    - Quinn, Burkhauser and Myers, *Passing the Torch: The Influence of Economic Incentives on Work and Retirement*, Ch. 2 (pp. 53-62)
    - Newhouse, "Policy Watch: Medicare," *The Journal of Economic Perspectives*, Summer 1996
  - C. Cost/Benefit Analysis (3/13 - 3/18)
    - Rosen, Ch. 12, Appendix to Ch. 4
    - Kelman, "Cost-Benefit Analysis: An Ethical Critique," *Regulation*, January/February 1981
    - Portney and Harrington, "Health-Based Environmental Standards: Balancing Costs with Benefits," *Resources*, Summer 1995

- IV. Framework for Tax Analysis
  - A. Tax Incidence (3/20 - 3/25)
    - Rosen, Ch. 13
    - \*\*\* - reading to be announced
  - B. Tax Efficiency (3/27 - 4/1)
    - Rosen, Ch. 14
  
- V. Financing Government Expenditures
  - A. Personal Income Tax (4/3 - 4/17)
    - Rosen, Chs. 16 & 17 (pp. 399-420)
    - Bosworth and Burtless, "Effects of Tax Reform on Labor Supply, Investment, and Saving," *The Journal of Economic Perspectives*, Winter 1992
    - \*\*\* - Eissa and Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics*, May 1996
  - B. Deficit Financing (4/22 - 4/29)
    - Rosen, Ch. 19
    - Schultze, "Of Wolves, Termites and Pussycats," *The Brookings Review*, Summer 1989
    - Eisner, "More on Pussycats and Termites," *The Brookings Review*, Fall 1989

\*\*\* Not included in readings packet; on reserve at O'Neill Library